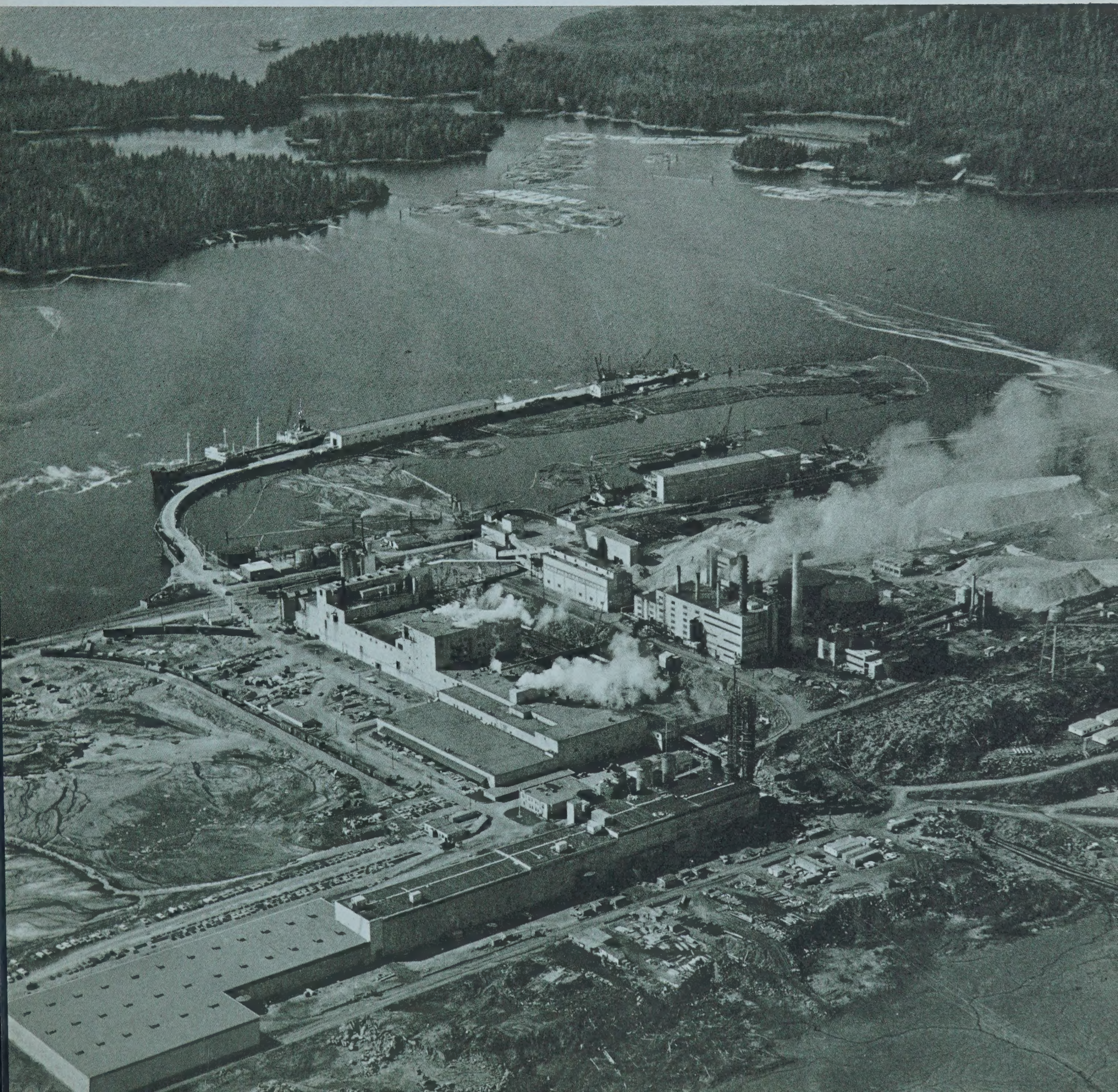
COLUMBIA CELLULOSE COMPANY, LIMITED ANNUAL REPORT 1966





**COLUMBIA CELLULOSE**
COMPANY, LIMITED *and its subsidiary companies*

## FINANCIAL SUMMARY AND REVIEW

(*in thousands of dollars*)

| | 1966 | 1965 | 1964 | 1963 | 1962 | 1961 | 1960 | 1959 |
|---|---|---|---|---|---|---|---|---|
| Net sales | **$ 64,397** | $ 65,530 | $ 62,347 | $ 56,768 | $ 51,907 | $ 29,305 | $ 26,223 | $ 26,131 |
| Profit on operations before interest, depletion and amortization | **13,659** | 16,725 | 18,652 | 17,431 | 14,048 | 6,689 | 6,506 | 6,932 |
| Cost of borrowed money (net) | **3,819** | 3,623 | 3,924 | 3,818 | 3,214 | 1,096 | 867 | 854 |
| Depreciation, amortization and depletion | **7,284** | 6,720 | 6,671 | 6,244 | 6,129 | 3,685 | 3,088 | 3,173 |
| Net profit before income taxes | **2,556** | 6,382 | 8,057 | 7,369 | 4,705 | 1,908 | 2,551 | 2,905 |
| Provision for income taxes | **1,392** | 3,040 | 3,980 | 3,590 | 1,570 | 1,249 | — | — |
| Net profit for the year | **1,164** | 3,342 | 4,077 | 3,779 | 3,135 | 659 | 2,551 | 2,905 |
| Current assets: | | | | | | | | |
| Cash and equivalent | **11,924** | 16,013 | 4,275 | 6,899 | 9,084 | 3,662 | 4,077 | 5,262 |
| Inventories | **22,831** | 17,923 | 14,949 | 14,216 | 11,251 | 12,487 | 10,946 | 4,731 |
| Other current | **10,510** | 9,978 | 7,724 | 6,667 | 6,047 | 4,161 | 2,055 | 2,504 |
| | **45,265** | 43,914 | 26,948 | 27,782 | 26,382 | 20,310 | 17,078 | 12,497 |
| Current liabilities | **24,718** | 9,680 | 7,538 | 9,095 | 7,029 | 6,022 | 5,310 | 4,686 |
| Working Capital | **20,547** | 34,234 | 19,410 | 18,687 | 19,353 | 14,288 | 11,768 | 7,811 |
| Fixed assets at cost | **150,493** | 147,612 | 138,510 | 130,450 | 123,185 | 118,347 | 107,584 | 77,449 |
| Accumulated depreciation | **52,373** | 46,809 | 40,893 | 36,381 | 31,286 | 26,509 | 22,582 | 20,232 |
| Net fixed assets | **98,120** | 100,803 | 97,617 | 94,069 | 91,899 | 91,838 | 85,002 | 57,217 |
| Construction in progress | **70,097** | 22,866 | — | — | — | — | 37,507 | 10,544 |
| Outstanding debt | **119,637** | 104,880 | 61,742 | 61,742 | 61,742 | 44,439 | 35,242 | 30,205 |
| Minority interest | **4,000** | 4,000 | — | — | — | — | — | — |
| Preferred shares (par value) | **20,750** | 20,750 | 5,000 | 5,000 | 7,500 | 25,000 | 10,000 | — |
| Common equity | **47,615** | 47,447 | 46,360 | 44,108 | 42,203 | 39,768 | 39,808 | 37,621 |

*Cover Note:*

*This aerial view of the Prince Rupert operations shows the sulphite dissolving pulp mill in centre and the new Skeena Kraft mill in lower foreground. Combined capacity will be in excess of 1300 tons of bleached pulp per day.*

COLUMBIA
CELLULOSE
COMPANY, LIMITED

1111 WEST HASTINGS STREET, VANCOUVER 1, B. C., CANADA. TELEPHONE: 685-2452

## TO THE SHAREHOLDERS

The annual report of the directors, the financial statements for the year 1966 and the auditors' report to the shareholders are set out herein.

Net earnings for the year were $1,164,332, equivalent to 2.3 cents per common share, after payment of $996,000 in dividends on preferred shares. Allowance for depreciation, amortization and depletion of fixed assets was made in the amount of $7,283,261 and $1,392,000 was provided for present and future taxes on income.

This substantial shortfall from the earnings of the prior year is entirely attributable to the northern operations of the company. The operations of the Prince Rupert sulphite mill were badly affected during the whole of 1966 by the construction activities connected with the Skeena Kraft mill. The two mills are closely integrated and share many common services, including management. The launching of a venture of this size, under these circumstances, has necessarily resulted in the sulphite operation suffering and this will continue into the first half of 1967.

An illegal walk-out by Local Number 4 of the Pulp and Paper Workers of Canada shut down the Prince Rupert sulphite mill and the Skeena Kraft mill for thirty-two days in September and October. While the strike halted construction of the Skeena mill for only a few days, coming as it did during the crucial start-up period, it had a most damaging effect. Construction was on or ahead of target at that time but the serious dislocation of services caused by the strike delayed the commencement of smooth operations.

As an aftermath of the strike, it was necessary to curtail the company's woods operations at Terrace to bring log inventories into line. This curtailment, which will continue well into the first half of 1967, will result in substantially increased wood costs in the northern area.

The management of Twinriver Timber Limited at Terrace has been completely reorganized and strengthened to the point that it is in a position to cope with the job of substantially reducing the cost of wood to our northern

mills. The company is convinced that there are very significant savings to be realized in this major area of our operations.

All three of the company's divisions in the interior operated well during 1966. Steady progress was made during the year with wood costs being kept very well in line despite rising costs, particularly wages and salaries. The sawmill and the pulp mill at Castlegar so increased their levels of efficiency that both divisions exceeded their profit targets.

With the completion of the Skeena Kraft venture during the first half of this year, no major capital expenditures are contemplated for 1967. Capital funds will be applied primarily to maintenance of business and profit improvement projects.

Markets for the company's dissolving pulps are firm and our sales are limited only by the production difficulties resulting from the tying in and start-up of the Skeena Kraft mill at Prince Rupert. Lumber prices declined steadily from mid year but the demand should pick up in the second quarter of 1967 when pressure for additional housing is expected to result in an increase in the number of housing starts.

World demand for bleached kraft pulps is strong and growing at least as fast as forecasts predicted. Production facilities, however, have grown even more quickly, and undoubtedly the industry faces a period of surplus capacity. This has resulted in some pressure on prices both in North America and overseas. However, it is our opinion that the extent and the duration of this surplus are not such as to warrant a price decline of any magnitude.

With the completion of the start-up of the Skeena Kraft mill and the return to normal operations of the Prince Rupert sulphite mill supplemented by the cost reduction and profit improvement programme now in hand, we look forward to a return to more satisfactory profit levels.

On behalf of the Board,

PAUL M. MARSHALL,
*Chairman and President.*

## FINANCIAL RESULTS AND CHANGES

Net sales for the year totalled $64,396,661, a decrease of $1,133,404 or 1.7% from 1965. Operating profit before interest and non-cash charges was $13,659,256 down $3,065,613 from the previous year.

The amount of depreciation, amortization and depletion, calculated on the same basis as in previous years was $7,283,261 compared with $6,720,150 in 1965. The provision for present and future taxes on income was $1,392,000, or at a rate of approximately 54%. In 1965 $3,040,000 was provided for income taxes. Start-up expenses of $3,384,637 in connection with the Skeena Kraft mill have been deferred, and will be written off against future earnings.

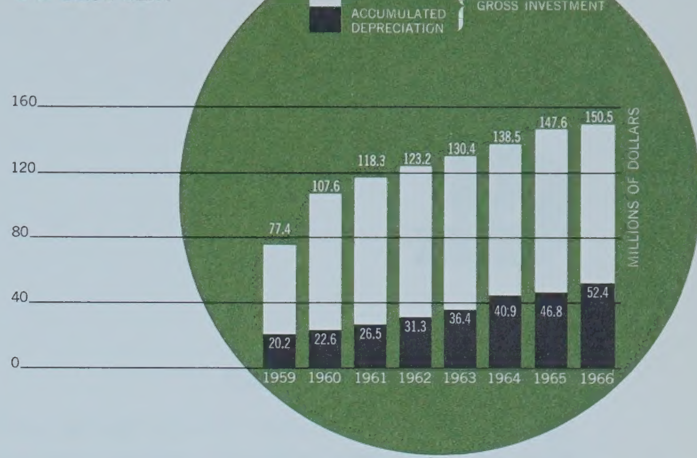
Net profit for the year was $1,164,332 compared with $3,341,662 in 1965. After payment of preferred dividends amounting to $996,000, the net profit for 1966 attributable to the common shareholders was equivalent to 2.3¢ per share. In 1965, after paying preferred dividends of $804,208, the earnings per common share were 34¢.

Cash generated from operations during the year totalled $9,602,299. This was a decrease of $2,736,513 from 1965. Additional funds were provided by withdrawals under the Skeena Kraft Trust Deed amounting to $24,932,988, and by the issue of subordinated debentures, also under the Skeena Kraft Trust Deed, totalling $8,740,000. An amount of $5,801,406 was advanced by Celanese Corporation, of which $1,626,562 was short term, or less than one year. Short term borrowings totalling $4,700,000 were obtained from banks.

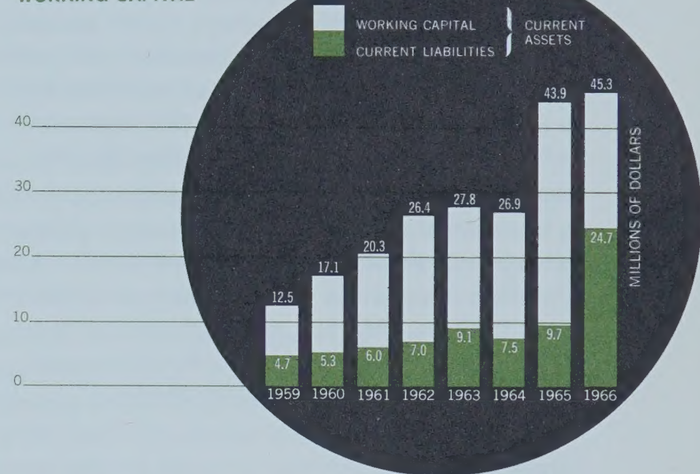
Total funds generated from operations and borrowings were $53,776,693. Capital expenditures amounted to $51,808,879 and start-up expenditures in connection with the Skeena Kraft mill absorbed $3,384,637. Dividend payments totalled $996,000, and working capital and other requirements increased by $1,676,052. At year end, the result of these transactions was a reduction of cash and equivalent from $16,013,413 in 1965 to $11,924,538.

On January 2, 1967 the company commenced repayment of monies borrowed by Celgar Limited through the issue of 6⅛% First Mortgage bonds due January 2, 1981 and totalling U.S. $60,000,000. The amount of U.S. $4,000,000 has been paid as prescribed in the sinking fund requirements of the Trust Deed.

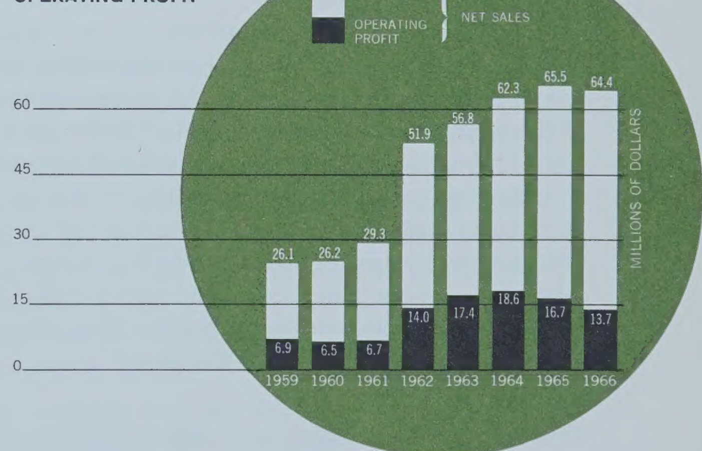
**PROPERTY, PLANT AND EQUIPMENT**



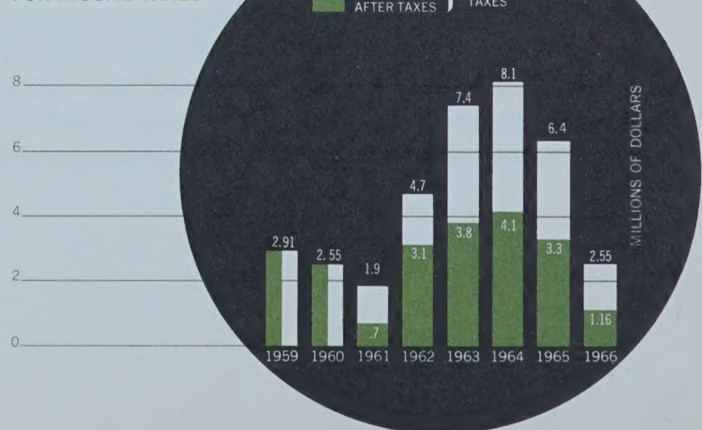

**WORKING CAPITAL**




**NET SALES AND OPERATING PROFIT**




**NET PROFIT AND PROVISION FOR INCOME TAXES**



## INTERIOR OPERATIONS

### PULP

Production at the Castlegar Pulp Division reached an all time high during 1966 of 186,875 tons. Modifications and improvements to the recovery boiler made during the July shutdown have increased production capacity of the mill as well as contributing to reduced operating costs resulting from lower natural gas consumption in the power boilers.

Despite earlier predictions of a world-wide softening in the Kraft Pulp market, the total ouput of the mill was marketed in a satisfactory manner. North American price levels were maintained on the same basis as 1965 but returns from overseas shipments were affected throughout the year by the $12.00 per ton reduction made in the last quarter of 1965.

### LUMBER

Total production and shipments from the Celgar Lumber Division were at a record high of 118 million feet of lumber.

Prices rose sharply during the spring of 1966 but fell back to 1965 levels during the last seven months of the year. Housing starts in the U.S.A. dropped from 1.5 million in 1965 to approximately 1.1 million in 1966 and were chiefly responsible for the decline in demand and prices in the last half of the year. Outlook for lumber products during the coming year does not indicate any improvement from current price levels with predicted housing starts estimated at 1.08 million for the year.

### WOODS

The Celgar Woods Division produced 313,000 cunits of logs from the Tree Farm Licence and purchased 50,000 cunits from contractors for a total of 363,000 cunits. Log requirements at the plants were somewhat in excess of this volume but planned inventory reduction necessitated a curtailment in output of approximately 40,000 cunits.

### GENERAL

The increased activity generated by construction of the High Arrow Dam is causing extra trouble and inconvenience to the Woods Division. Considerable clearing was done on both the Upper and Lower lakes and a start made on relocating logging facilities. Plans for 1967 include moving of the Nakusp Administration and Maintenance buildings to a location above the flood level as well as re-designing and relocating log dumps and booming facilities. Costs incurred by the company in these and other areas are being negotiated with the B.C. Hydro & Power Authority on a continuing basis.

## NORTHERN OPERATIONS

The northern coastal operations at Prince Rupert, of which the Skeena Kraft mill now forms a part, were affected by severe weather conditions, labour strife and mill start-up problems which influenced the performance of both mills. These factors, together with high wood costs, seriously curtailed the company's overall earnings performance for the year.

### PULP

An unusually severe winter for the second consecutive year affected the early earnings picture for most of the forest industry. For the northern operations, recovery from this initial setback was hindered by a series of labour problems, and production disruptions inherent in integrating a large new mill with an established operation to achieve the benefits of long-term efficiency.

External factors such as longshore disputes, both overseas and locally, affected offshore shipments but the major labour problem was a 32-day illegal walkout of employees at the Prince Rupert operations which closed down the sulphite mill, curtailed the construction programme at the Skeena mill and severely delayed the start-up programme.

During the year, 154,677 tons of dissolving pulp were produced. This represented a daily average of 498 tons compared to 530 tons in 1965. Unfavourable product mix, together with higher costs of raw

materials and labour, combined with low production resulting from the interference of the construction activities to give an adverse cost picture for this part of the operations.

### WOODS

In order to reduce the cost of wood, an extensive reorganization has been implemented to strengthen the northern woods division operations and administration.

Log production was curtailed towards year end to bring inventories in line with projected requirements which had been reduced by the illegal walkout. The year's log production totalled 525,826 cunits of which 322,649 were from tree farm operations, 47,570 from timber sales and 155,607 cunits from outside purchases.

Seventy miles of new roads were constructed including ten miles of extension into T.F.L. #40, where future plans call for construction of a central administration office and community for the woods operations in that area.

Fire losses were insignificant due largely to favourable weather conditions during the summer months.

### GENERAL

A two-year labour contract was signed on an industry-wide basis for pulp mills in British Columbia providing for a 20¢ per hour increase in each year for all regular hourly employees and a 10¢ per hour additional increase, effective July 1, 1966, for journeymen tradesmen. Northern logging and sawmilling operations negotiated 20¢ per hour increases effective in 1966 and 1967 on a two-year contract basis.

## SKEENA KRAFT

Construction of the Skeena Kraft mill, designed to produce 750 tons-per-day of high quality bleached pulp, is essentially on schedule in spite of the effects of the illegal walkout at Watson Island.

Due to the activity of pulp mills and other major projects under construction throughout the province, qualified tradesmen were in short supply. The 1200 peak force required early in the year was difficult to maintain even with overtime incentives which increased costs and put pressure on contractor commitments.

A strike of carpenters in British Columbia did not halt construction but did influence the productivity of some other trades, setting some facilities back, and was a contributing cause of the mill workers' walkout.

Picketing of the Watson Island mills during the walkout brought construction to a halt for six days until pickets were removed by court injunction. During the period many skilled construction tradesmen left for other employment, creating an imbalance of trades at the Skeena construction site, prolonging the start-up period.

Company housing assistance programmes were carried to completion. Houses were offered to employees on a preferred basis to the end of January, 1967 before being made available to the general public.

An active sales and promotional programme was instituted to introduce Skeena Kraft to world markets. During the year, 7,971 tons of unbleached and semi-bleached kraft were produced. Production of bleached stock at higher market values began early in 1967.

As the problems inherent in combining two large-scale, inter-related mills are overcome, these operations look forward in the future to enjoying the many economies of integration.

## RESEARCH AND DEVELOPMENT

During 1966 the Research & Development Division continued major emphasis on direct support of the company's present operations. For Prince Rupert,

progress was achieved in research on process improvements to reduce costs and improve quality. The results of some of these studies will be implemented in the mill operations during the coming year. Technical effort has resulted in more extended use of Columbia pulps in the plastics field, and a modified viscose-type pulp is now being sold on a limited basis for high wet modulus rayon production. Development work on major process changes offering the potential for significant cost reduction concurrent with major quality advances, holds promise for the future enhancement of the company's competitive position in dissolving pulp markets.

Activity on behalf of Skeena Kraft Limited was primarily concerned with the establishment of pre-launching process conditions and product specifications, and with assistance in mill start-up. Assessment of the company's northern woods resources was continued to provide information for more economical utilization of the wood in the combined Skeena Kraft-Prince Rupert sulphite mill operations.

For the Celgar pulp mill, research was carried out on process cost reduction and on methods of improving pulp quality in anticipation of more competitive markets.

The Division's long-range basic research on the chemistry of wood cellulose as related to dissolving pulp is being supported in part by a National Research Council grant. In 1967 a second grant will be applied for in order to increase activity in this important area at minimum cost to the company.


**COLUMBIA CELLULOSE**
COMPANY, LIMITED *and its subsidiary companies*

## CONSOLIDATED STATEMENT OF EARNINGS

*for the year ended December 31, 1966 with 1965 comparison*

| | 1966 | 1965 |
|---|---|---|
| Net sales | **$64,396,661** | 65,530,065 |
| Cost of goods sold | **47,099,681** | 45,173,628 |
| Selling, administrative and research expenses | **3,637,724** | 3,631,568 |
| | **50,737,405** | 48,805,196 |
| Operating profit before depreciation | **13,659,256** | 16,724,869 |
| Other charges, net: | | |
| Interest on mortgage bonds (Note 5) | **3,971,067** | 3,975,431 |
| Exchange loss on repayment of mortgage bonds | **216,355** | — |
| Other interest expense | **49,106** | 54,892 |
| | **4,236,528** | 4,030,323 |
| Less interest income | **416,865** | 407,266 |
| | **3,819,663** | 3,623,057 |
| Net profit before the undernoted provisions | **9,839,593** | 13,101,812 |
| Depreciation, amortization and depletion | **6,943,606** | 6,290,023 |
| Amortization of mill start-up expenses | **271,383** | 361,852 |
| Amortization of financing expenses | **68,272** | 68,275 |
| | **7,283,261** | 6,720,150 |
| Net profit before income taxes | **2,556,332** | 6,381,662 |
| Provision for income taxes (Note 6) | **1,392,000** | 3,040,000 |
| Net profit for the year | **$ 1,164,332** | 3,341,662 |

## CONSOLIDATED STATEMENT OF EARNED SURPLUS

*for the year ended December 31, 1966 with 1965 comparison*

| | 1966 | 1965 |
|---|---|---|
| Earned surplus at beginning of year | **$13,061,706** | 12,005,013 |
| Net profit for the year | **1,164,332** | 3,341,662 |
| | **14,226,038** | 15,346,675 |
| Dividends: | | |
| Preferred shares | **996,000** | 804,208 |
| Common shares | **—** | 1,480,761 |
| | **996,000** | 2,284,969 |
| Earned surplus at end of year (Note 5) | **$13,230,038** | 13,061,706 |

*See accompanying notes to consolidated financial statements.*

**COLUMBIA CELLULOSE**
COMPANY, LIMITED *and its subsidiary companies*

## CONSOLIDATE

*December 31, 196*

### ASSETS

| | 1966 | 1965 |
|---|---|---|
| CURRENT ASSETS: | | |
| Cash and short-term bank deposits | **$ 10,840,211** | 5,711,156 |
| Short-term notes at cost plus accrued interest | **1,084,327** | 10,302,257 |
| Accounts receivable: | | |
| Trade | **8,112,257** | 7,203,623 |
| Affiliates | **535,575** | 667,915 |
| Other | **1,688,091** | 1,754,549 |
| Income taxes refundable | **119,803** | 261,629 |
| Inventories (Note 2) | **22,831,462** | 17,922,504 |
| Prepaid expenses | **53,862** | 90,335 |
| Total current assets | **45,265,588** | 43,913,968 |
| CASH AND SHORT-TERM NOTES, held by trustee for bond holders, for construction of pulp mill | **—** | 24,932,988 |
| SPECIAL REFUNDABLE TAX | **369,000** | — |
| MORTGAGES, DEPOSITS AND PROPERTY FOR DISPOSAL, net | **2,346,805** | 1,763,540 |
| FIXED ASSETS, at cost: | | |
| Land | **549,813** | 449,746 |
| Timber licences, roads and related facilities | **22,919,109** | 20,246,903 |
| Buildings, machinery and equipment | **127,024,293** | 126,915,782 |
| | **150,493,215** | 147,612,431 |
| Less accumulated depreciation, amortization and depletion (Note 3) | **52,372,957** | 46,808,857 |
| | **98,120,258** | 100,803,574 |
| Plant in course of completion | **70,096,602** | 22,865,976 |
| | **168,216,860** | 123,669,550 |
| DEFERRED CHARGES, LESS AMOUNTS WRITTEN OFF: | | |
| Mill start-up expenses (Note 4) | **3,384,637** | 271,383 |
| Timber reconnaissance | **900,815** | 874,915 |
| Financing expenses | **673,944** | 664,383 |
| | **4,959,396** | 1,810,681 |
| | **$221,157,649** | 196,090,727 |

*See accompanying notes to consolidated financial statements.*

## ALANCE SHEET

*th 1965 comparison*

### LIABILITIES AND SHAREHOLDERS' EQUITY

| | 1966 | 1965 |
|---|---|---|
| CURRENT LIABILITIES: | | |
| Bank demand loans, unsecured | $ 4,700,000 | — |
| Accounts payable and accrued charges | 10,904,561 | 6,848,097 |
| Accrued bond interest | 3,154,601 | 2,832,069 |
| Mortgage bonds to be repaid within one year (Note 5) | 4,332,500 | — |
| 6% demand notes payable to parent company (U.S. $1,500,000) | 1,626,562 | — |
| Total current liabilities | 24,718,224 | 9,680,166 |
| LONG-TERM DEBT: | | |
| First mortgage bonds (Note 5) | 100,763,538 | 104,879,683 |
| 6% notes payable to parent company (U.S. $3,850,000), not callable prior to January 1, 1968 | 4,174,844 | — |
| Timber sales purchase agreements, less amount due within one year | 646,952 | 478,119 |
| | 105,585,334 | 105,357,802 |
| DEFERRED INCOME TAXES (Note 6) | 9,749,000 | 8,856,000 |
| SUBORDINATED DEBENTURES of Skeena Kraft Limited (Note 7) | 8,740,000 | — |
| MINORITY SHAREHOLDER'S INTEREST in share capital of subsidiary, Skeena Kraft Limited | 4,000,000 | 4,000,000 |
| SHAREHOLDERS' EQUITY (Notes 5 and 8): | | |
| Share capital: | | |
| $1.20 cumulative redeemable convertible preferred shares of $25 each. Authorized and issued 830,000 shares | 20,750,000 | 20,750,000 |
| Common shares of no par value. Authorized 10,000,000 shares; issued 7,403,803 shares | 34,355,294 | 34,355,294 |
| | 55,105,294 | 55,105,294 |
| Contributed surplus | 29,759 | 29,759 |
| Earned surplus, per accompanying statement | 13,230,038 | 13,061,706 |
| | 68,365,091 | 68,196,759 |
| COMMITMENTS (Note 9). | | |
| | $221,157,649 | 196,090,727 |

Signed on behalf of the Board:

M. W. MACKENZIE, *Director.*

PAUL M. MARSHALL, *Director.*

**COLUMBIA CELLULOSE**
COMPANY, LIMITED *and its subsidiary companies*

## SOURCE AND APPLICATION OF FUNDS

*(in thousands of dollars)*

| | 1966 | 1965 |
|---|---|---|
| SOURCE OF FUNDS: | | |
| Funds provided by operations: | | |
| Net profit for the year | **$ 1,164** | 3,342 |
| Provision for depreciation and other non-cash charges | **7,545** | 6,720 |
| Provision for deferred income taxes | **893** | 2,277 |
| Net funds provided by operations | **9,602** | 12,339 |
| Funds provided by capital and long-term debt changes: | | |
| Advance from Celanese Corporation | **4,175** | — |
| Issue of $1.20 preferred shares – net | — | 20,780 |
| Redemption of 7% preferred shares | — | (5,000) |
| Issue of common shares by subsidiary to minority shareholder | — | 4,000 |
| Issue of Subordinated Debentures by subsidiary to minority shareholder | **8,740** | — |
| Sale of 5⅜% First Mortgage bonds (less amounts held by Trustee) – net | — | 17,608 |
| Funds received from Trustee | **24,933** | — |
| Net funds provided by capital and long-term debt changes | **37,848** | 37,388 |
| Funds provided short-term: | | |
| Banks | **4,700** | — |
| Celanese Corporation | **1,627** | — |
| | **6,327** | — |
| NET FUNDS PROVIDED | **53,777** | 49,727 |
| APPLICATION OF FUNDS: | | |
| Capital expenditures – net cash outlay | **4,578** | 9,870 |
| Construction in progress – new pulp mill | **47,230** | 22,280 |
| Deferred mill start-up expenses | **3,385** | — |
| Dividends paid | **996** | 2,285 |
| Increase in receivables, inventories, prepayments, etc. less change in payables and accrued items | **728** | 2,624 |
| Other | **948** | 930 |
| NET FUNDS APPLIED | **57,866** | 37,989 |
| EXCESS OF FUNDS PROVIDED OVER FUNDS APPLIED | **(4,089)** | 11,738 |
| OPENING BALANCE OF CASH AND EQUIVALENT | **16,013** | 4,275 |
| CLOSING BALANCE OF CASH AND EQUIVALENT | **$11,924** | 16,013 |

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

*December 31, 1966*

**1.** CONVERSION OF FOREIGN CURRENCIES: Current assets and current liabilities in foreign currencies have been converted into Canadian dollars at the official rates of exchange in effect at December 31, 1966. The mortgage bonds payable in U.S. funds, other than the amount due within one year, have been converted at rates prevailing at the time of receipt of the funds secured under the bonds.

**2.** INVENTORIES: Inventories at December 31, 1966 were valued at average cost or less, and were not in excess of market. A summary of the inventories is as follows:

| | |
|---|---|
| Raw materials | $ 17,051,115 |
| Work in process | 102,055 |
| Finished goods | 2,423,787 |
| Stores and supplies | 3,254,505 |
| | $ 22,831,462 |

**3.** FIXED ASSETS: Depreciation on pulp mills was calculated on the straight-line method at 4% on cost and on other assets on the diminishing-balance method at varying rates up to 20% a year.

**4.** DEFERRED MILL START-UP EXPENSES: During the latter part of 1966, the Skeena Kraft Pulp Mill was operated on a start-up basis. The net operating expenses incurred in November and December 1966, together with recruitment and training costs have been deferred. These mill start-up expenses will be amortized from the date the mill is considered to be fully operational. Depreciation on the plant in course of completion will be taken from the date that it is considered to be fully operational.
The balance of the Castlegar mill start-up expense was amortized in 1966.

**5.** FIRST MORTGAGE BONDS:

| | |
|---|---|
| Celgar Limited: U.S. $60,000,000 6⅛% First Mortgage 20 year bonds due January 2, 1981, with an annual sinking fund requirement from 1967 through 1980 of U.S. $4,000,000, less amount included in current liabilities | $ 57,626,038 |
| Skeena Kraft Limited: U.S. $40,000,000 5⅜% First Mortgage 20 year bonds due July 1, 1985, with annual sinking fund requirements of U.S. $2,000,000 from 1971 through 1975; U.S. $2,500,000 from 1976 through 1980; and U.S. $3,500,000 from 1981 through 1984 | 43,137,500 |
| | $100,763,538 |

The first mortgage bonds of Celgar Limited are secured by a fixed and floating charge on the assets of that company, the net book value of which at December 31, 1966 amounted to $141,089,190. The first mortgage bonds of Skeena Kraft Limited are similarly secured on the assets of that company, the net book value of which at December 31, 1966 amounted to $79,547,067.
Among other things, the trust deed securing the bonds of Celgar Limited provide that Celgar Limited will not declare or pay dividends, other than stock dividends, or reduce its capital stock, except to the extent of 80% of its consolidated net profit from January 1, 1961. The effect of this restriction at December 31, 1966 is to limit to $10,631,386 the amount of the consolidated earned surplus of Columbia Cellulose Company, Limited at that date, which may be applied to the payment of dividends by that company. There are similar restrictions in the trust deed securing the bonds of Skeena Kraft Limited.
Interest on the Skeena mortgage bonds amounted to $2,315,459 in 1966 of which $1,862,253 was capitalized and $453,206 was charged to mill start-up expenses.

**6.** INCOME TAXES: It is expected that depreciation for income tax purposes will be claimed for 1966 in excess of that recorded in the accounts and accordingly the amount provided for income taxes in the consolidated statement of earnings includes $1,348,000 for taxes that would otherwise have been payable. This amount is included in "Deferred income taxes" in the balance sheet. The cumulative total of deferred income taxes was reduced by $455,000 which was the amount of additional income taxes paid in 1966 since less depreciation was claimed for income taxes in 1965 than had been originally estimated.
In future years when the depreciation recorded in the accounts may exceed that allowable for tax purposes, the tax on those excess amounts will be charged against deferred income taxes and not against the income of those years.

**7.** SUBORDINATED DEBENTURES OF SKEENA KRAFT LIMITED:

| | |
|---|---|
| $13,500,000 8% Series A Subordinated debentures and $8,350,000 8% Series B Subordinated debentures | $ 21,850,000 |
| Less 60% held by parent company, Columbia Cellulose Company, Limited | 13,110,000 |
| Held by minority shareholder | $ 8,740,000 |

Repayment of the subordinated debentures of Skeena Kraft Limited is subject to the prior payment of the first mortgage bonds of that company to the extent provided in the terms of the subordinated debentures. Interest on these debentures has been waived.

**8.** SHARE CAPITAL: The $1.20 cumulative redeemable convertible preferred shares are redeemable in whole or in part at the option of the company at any time at $26 per share, plus accrued dividends. The holders of such shares are entitled to convert each $1.20 preferred share into two common shares at any time up to April 1, 1975.
Under a stock option plan adopted in April, 1963, 100,000 common shares were reserved for issue to officers and employees. Options have been granted on 53,400 common shares at the market price at date of issue which was $7.25 a share for 41,400 shares and $8.00 a share for 12,000 shares. The options, which expire December 31, 1973, are exercisable as to 20% a year on a cumulative basis from April 19, 1964. Options on 800 shares have been exercised to December 31, 1966.
The authorized share capital of the company also includes 2,500,000 7% cumulative redeemable preferred shares of $2.00 par value per share. These shares have been issued and redeemed.

**9.** COMMITMENTS: At December 31, 1966, capital commitments amounted to approximately $2,210,000.
At December 31, 1966 annual rental obligations, mainly for logging machinery and equipment, under long-term leases from an affiliate amount to approximately $485,000 for 1967 through 1969, $463,000 in 1970, $387,000 in 1971 and at reducing amounts year by year to 1976. Net annual rentals payable for office premises are approximately $175,000 for the period 1967 through 1985.

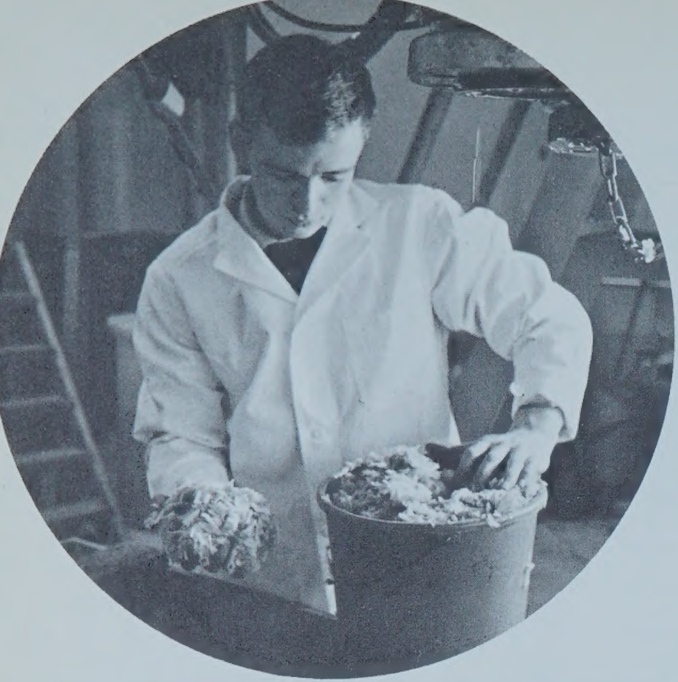
**10.** SELLING, ADMINISTRATION AND RESEARCH EXPENSES: Remuneration of directors, including salaries as executive officers, amounted to $185,217 in 1966.

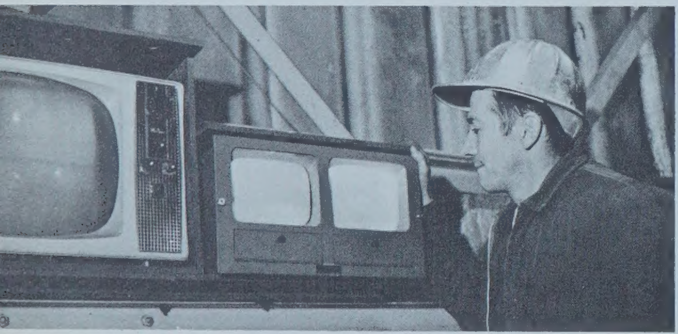
## AUDITORS' REPORT TO THE SHAREHOLDERS

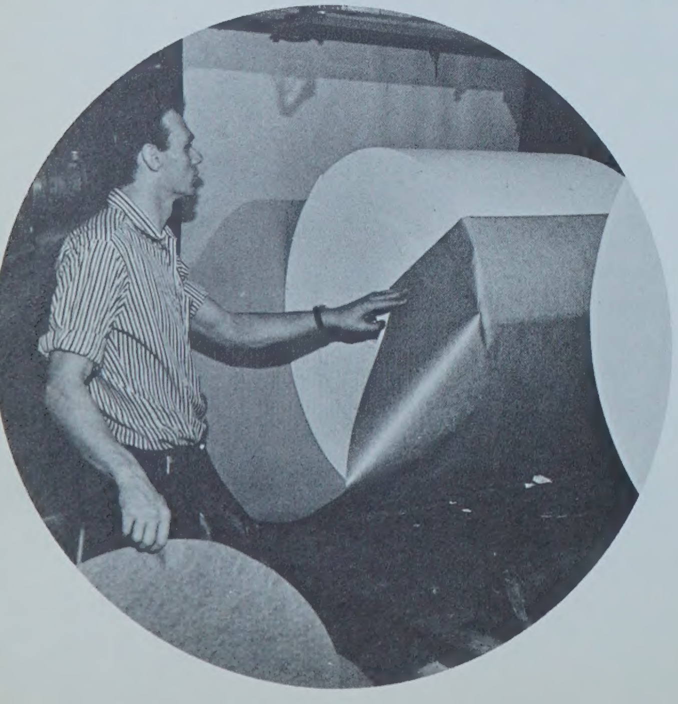
We have examined the consolidated balance sheet of Columbia Cellulose Company, Limited and its subsidiary companies as of December 31, 1966 and the consolidated statements of earnings and earned surplus for the year ended on that date. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheet and consolidated statements of earnings and earned surplus present fairly the financial position of the company and its subsidiary companies at December 31, 1966 and the results of their operations for the year ended on that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year. Also, in our opinion, the accompanying consolidated statement of source and application of funds presents fairly the information shown therein.

Vancouver, B.C., January 27, 1967. PEAT, MARWICK, MITCHELL & CO., *Chartered Accountants.*







## OUTLOOK

The year 1966 was fraught with difficulties for the company. The major causes of these difficulties are outlined in the Directors' Report to the Shareholders. Some of these were of a non-recurring nature. Others, while remedial action has been instituted, will take some time to correct.

We cannot expect to overcome completely the disruption to the Prince Rupert manufacturing operations until about mid year and the programme to reduce the cost of wood in the northern area will, we expect, become fruitful gradually and should begin to make itself evident about year end.

The company enters 1967 with its major expansion almost complete and with the realignment and strengthening of the organization well in hand. When the Skeena venture is operational, the results of that company will be consolidated with those of Columbia Cellulose. While it is not expected that Skeena will be profitable during the initial period, the longer-term prospects of bleached kraft pulp are very promising.

In summary, while two or three lean years are facing the company, the steps taken have put the company in a position to participate in the strong world markets for bleached kraft pulp that will develop as demand overtakes supply within the next few years.

## CORPORATE RELATIONSHIPS

Columbia Cellulose retains a wholly-owned position in Celgar Limited, Celgar Properties Limited, Calum Lumber Limited and Columbia Pulp Sales Limited; 60% ownership in Skeena Kraft Limited; and an effective 80% ownership in Twinriver Timber Limited and Colcel Properties Limited. These companies function in service or operating relationships with Columbia Cellulose as the holding company. Celgar Limited operates the manufacturing plants as separate divisions, also co-ordinating the Research and Development Division with the needs of the operations and the company's forward planning.

Celgar kraft pulp and lumber are produced at integrated mills near Castlegar; lumber for overseas export, Columbia dissolving and specialty paper pulps and Skeena Kraft pulps are produced at Prince Rupert.

The head office is in Vancouver, B.C.

**COLUMBIA CELLULOSE**
COMPANY, LIMITED

## BOARD OF DIRECTORS

| | |
|---|---|
| Harold Blancke | *Chairman and Chief Executive Officer, Celanese Corporation* |
| Alexander R. Cochran | *Senior Vice President Staff Services, Celanese Corporation* |
| Peter H. Conze | *Executive Vice President, Celanese Corporation* |
| Fletcher Horn | *Executive Vice President, Columbia Cellulose Company, Limited* |
| James R. Kennedy | *Vice Chairman, Celanese Corporation* |
| Charles C. Locke | *Partner of the Law Firm of Ladner, Downs, Ladner, Locke, Clark & Lenox, Vancouver, B.C.* |
| Dr. C. J. Mackenzie | *Formerly President of National Research Council of Canada and of the Atomic Energy Control Board* |
| M. W. Mackenzie | *Chairman of Finance Committee of Columbia Cellulose Company, Limited and of Chemcell Limited* |
| C. S. Malone | *President, Chemcell Limited* |
| Paul M. Marshall | *Chairman of Columbia Cellulose Company, Limited and of Chemcell Limited* |
| William T. Marx | *Executive Vice President, Celanese Corporation* |
| Edwin C. McDonald | *Chairman of the Board, The Royal Bank of Canada Trust Company* |
| Robinson Ord | *Deputy Chairman, Chemcell Limited* |
| Hon. James Sinclair | *Chairman of the Board, Lafarge Cement of North America Limited* |
| R. E. Stavert | *Formerly Chairman of Cominco Ltd.* |

## OFFICERS

| | |
|---|---|
| Paul M. Marshall | *Chairman and President* |
| Fletcher Horn | *Executive Vice President* |
| A. E. Penney | *Executive Vice President, Planning and Development* |
| Harry Bowler | *Vice President, Finance and Administration and Treasurer* |
| Eugene Deluca | *Vice President, Engineering* |
| Clement Garside | *Vice President, Interior Operations* |
| W. E. D. Gray | *Vice President, Marketing* |
| G. Martin Greer | *Secretary* |
| G. Richard Matthews | *Assistant Secretary* |

## TRANSFER AGENTS

| | |
|---|---|
| COMMON | Montreal Trust Company – *Vancouver, Toronto, Montreal* |
| | Bankers Trust Company – *New York* |
| PREFERRED | The Royal Trust Company – *Vancouver, Toronto, Montreal, Winnipeg and Halifax* |

## REGISTRARS

| | |
|---|---|
| COMMON | The Royal Trust Company – *Vancouver, Toronto, Montreal* |
| | The Chase Manhattan Bank – *New York* |
| PREFERRED | The Royal Trust Company – *Vancouver, Toronto, Montreal, Winnipeg and Halifax* |

## STOCK LISTINGS
VANCOUVER, TORONTO AND MONTREAL STOCK EXCHANGES

## AUDITORS
PEAT, MARWICK, MITCHELL & CO., *Vancouver*

## REGISTERED OFFICE
1200 - 1111 WEST HASTINGS STREET, VANCOUVER 1, B.C.

## ANNUAL MEETING, 1967
WEDNESDAY, APRIL 19, 1967 – *Vancouver*